



Department of Veterans Affairs

Financial Policy

Volume V

Assets

Chapter 5

Investments

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0501 Overview

This chapter establishes the Department of Veterans Affairs' (VA) policies for accounting and reporting investment transactions. VA holds investments in Treasury Securities, comprised of non-marketable Special Bonds and Notes, and non-Federal Trust investments. The VA insurance program investments are in non-marketable Treasury Special Bonds and Special Issue Treasury Certificates. Other VA program investments are in market-based and marketable securities issued by the Treasury. VA also holds non-Federal Trust investments in mutual funds and Loan Guaranty Program investments in trust certificates issued by the American Housing Trusts.

Key points covered in this chapter:

- VA will recognize marketable securities at acquisition cost;
- VA will record allowances to reflect estimated losses of principal; and
- VA will report investments in accordance with Office of Management and Budget (OMB) Circular A-136.

0502 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed five-year update	OFP (047G)	Reorganized chapter layout	September 2020
0503 Definitions	Updated definitions	OFP (047G)	Improve clarity and understanding	September 2020

0503 Definitions

Accrued Interest – Interest earned on a security instrument that has not yet been paid or received.

Discount – The difference between the price and the par (face) value of an investment when less than par value is paid or received for a security.

Interest Method – The method used to amortize premium and discount over the life of the Treasury security.

Marketable Treasury Securities – Debt securities initially offered by Treasury to the marketplace which can then be bought and sold on securities exchange markets. Their bid and ask prices are publicly quoted by the marketplace.

Market-based Treasury Securities – Debt securities issued by Treasury to Federal entities without statutorily determined interest rates. Although the securities are not marketable, their terms, including price and interest rates, mirror the terms of marketable Treasury securities.

Non-marketable Treasury Securities – Special series debt securities that Treasury issues to Federal entities at par (face) value. The securities are redeemed at face value on demand; investing entities recover the full amounts invested.

Premium – The difference between the price and the par value when more than par value is paid or received for a security.

Price – The market price (or value) for a security as of noon on the day of the investment or redemption.

Principal or par value – The stated or face amount of a security.

Subordinated Position – Ranking of debt below more senior loans or securities with respect to claims on assets or earnings by creditors.

Treasury Direct FedInvest Application – FedInvest is a Federal Investment Program application owned and maintained by the Bureau of the Fiscal Service, to be used by federal agencies that have investment authority in Government Accounts Series Securities.

Unrealized Discount – The value of the discount carried until a security is redeemed or matures.

0504 Roles and Responsibilities

Office of Financial Reporting is responsible for Department-wide accounting, reporting, and disclosure of investments per FASAB and OMB guidance.

Financial Services Center is responsible for providing support for the accounting and reporting of VA's investments, including posting, reconciling, and recording asset transactions and events, as requested.

Veterans Benefit Administration is responsible for supporting the accounting and reporting of investments within VA's insurance program and investments in trust certificates issued by the American Housing Trusts.

0505 Policies

050501 General Policies

- A. VA invests in three types of Treasury securities:
 - Non-marketable Treasury securities;
 - Market-based Treasury securities expected to be held to maturity; and
 - Marketable Treasury securities expected to be held to maturity.
- B. VA will use the FedInvest application to initiate transactions in Government Account Series securities, to submit transaction requests, or review reports.
- C. VA will account for and report investment transactions in accordance with the guidance in Statement of Federal Financial Accounting Standards (SFFAS) 1, Treasury Financial Manual (TFM) 2-4300, Office of Management and Budget (OMB) Circular A-11, and OMB Circular A-136.

050502 Valuation of Investments

- A. VA will recognize each type of investment security at its acquisition cost.
 - 1. If the acquisition is made in exchange for non-monetary assets, the acquired security should be recognized at the fair market value of either the security acquired or the asset given up, whichever is more determinable.
 - 2. If the acquisition cost differs from the face value, the security should be recorded at the acquisition cost, which equals the security's face value plus or minus the premium or discount on the investment.
- B. Subsequent to their acquisition, VA investments in Treasury securities will be carried at their acquisition cost, which equals the security's face value plus or minus the premium or discount on the investment. Valuation subsequent to acquisition will reflect amortization of premium or discount, if any. Whether the investment is in non-marketable, market-based, or marketable Treasury securities, amortization will occur over the life of the underlying securities, as follows:
 - 1. For Treasury bonds, VA will use the interest method, and;
 - 2. For Treasury bills, VA will use the straight-line method.
- C. VA may redeem investments at any time for their original purchase price.
- D. Interest rates for Treasury special securities will be based on average market yields for comparable Treasury issues.
- E. Special bonds, which mature during various years, will generally be held to maturity unless needed to finance insurance claims and dividends.

- F. VA will record allowances to reflect estimated losses of principal as a result of the subordinated position in housing trust certificates.
- G. VA will base the estimated allowance computations upon discounted cash flow analysis.
- H. VA will use income derived from its housing trust certificates to fund the Housing Trust Reserve Fund. The Housing Trust Reserve Fund is used to cover shortfalls in scheduled monthly principal and interest on the loans as well as to cover any realized losses incurred in the prior month.

050503 Accounting for Investments

- A. VA will account for its investments in securities issued by Treasury separately from investments in securities issued by non-Federal entities.
- B. VA will separate receipt accounts to distinguish between the different types of activities (investments, redemptions, and unrealized discounts) and will classify realized earnings as receipts.
- C. Interest receivable will be recognized as it is earned on investments in interest-bearing securities.

050504 Reporting of Investments

- A. VA will report investment transactions at par value through the Classification Transactions and Accountability (CTA) Module in the Central Accounting Reporting System to the Treasury Bureau of the Fiscal Service.
- B. VA will report investments in the consolidated financial statements at cost (net of amortized premiums or discounts and accrued interest), which approximates market value.
- C. VA will disclose in notes to the financial statements the components of investments, including the market value of the investments, in accordance with the reporting requirements of OMB Circular A-136.

0506 Authorities and References

[Statement of Federal Financial Accounting Standards \(SFFAS\) 1, Accounting for Selected Assets and Liabilities, paragraph 72](#)

[Office of Management and Budget \(OMB\) Circular A-11, Preparation, Submission, and Execution of the Budget, Part I, Section 20.12](#)

[OMB Circular A-136, Financial Reporting Requirements – Revised](#)

[Treasury Financial Manual \(TFM\), Volume I, Part 2, Chapter 4300, Reporting Instructions for Accounts Invested in the Department of the Treasury Securities](#)

0507 Rescissions

This chapter rescinds Volume V, Chapter 5 – Investments, July 2014.

0508 Questions

Questions concerning these financial policies should be directed to the following points of contact:

VHA	<u>VHA 10A3A Accounting Policy</u> (Outlook)
VBA	<u>VAVBAWAS/CO/FINREP</u> (Outlook)
All Others	<u>OFP Accounting Policy</u> (Outlook)